



REQUEST FOR COUNCIL ACTION

Title: Water Utility & Storm Water Utility Rate Discussion

Preferred Agenda: April 13, 2021

Submitted By: Brandon Neish, Finance Director

Reviewed By: Ray Towry, City Manager

Type of Action: Resolution ____ Motion ____ Roll Call ____ Other X

Relevant Code/Policy: SHMC § 13.04.050
Resolution No. 14 for 2019

Towards Council Goal: 1.2: Increase community awareness of infrastructure needs

Attachments: Initial Budget for Water & Storm Water
Requested Capital Projects for 2022-2026

Purpose of this RCA:

To discuss utility fees and review in the context of the FY22 Initial Budget and draft Capital Improvement Plan (CIP).

Background/Context:

Utility rates for water, sewer and storm water primarily fund operations for the treatment of and distribution and collection of water, wastewater and storm water. Additionally, due to the low system development charges, capital costs (infrastructure and expansion of systems) have been funded by utility fees as well. The expansion of the system using utility funds has left the City's capital funds severely depleted and a significant backlog of capital projects that need funding to move forward. Budget assumptions for the 2021-2022 fiscal year (beginning July 1, 2021) estimate that there is \$1.0 million in water and \$212,000 in storm water capital funds to divvy out to approximately \$7.9 million in projects while attempting to maintain a less than adequate reserve as well.

Budget development began in December 2020 with capital planning and is continuing through the month of April with the first budget meeting scheduled for April 22, 2021. Part of the budget development includes the development for the water operations, water capital, wastewater operations, wastewater capital, storm water operations and storm water capital funds. An initial budget is set then distributed to the City's Department Heads for their input. Capital projects are incorporated into the budget documents and a multi-year plan is developed based on funding projections for five years. Initial projections compiled by the Finance Department indicates that the City could spend \$3.5 million on water capital projects over the next five years. However, this initial assumption includes a water rate increase of 2.4% each year through 2026. No increase in the water utility rates would result in approximately \$325,000 in available capital funding, limiting the work that can be completed without external funding.

On the storm water side of the equation, the existing storm water utility rate is \$1.00 per equivalent dwelling unit. This rate was established in 2006 and has remained \$1.00 since inception. For residential accounts, this charge is just \$1.00 per month; for all others, the EDU is based on impervious surface area. This \$1.00/EDU rate generates nearly \$65,000 per year in total revenue of which 85% (\$55,000) goes to cover a .5 FTE employee and some materials for repairs. The additional \$2,000-\$5,000 is set aside for large-scale projects. In the current requested CIP, Public Works has requested \$590,000 in funds for improvements on 38th Avenue and Cotton Creek along with the development of a master plan to highlight priorities for the City and long-term infrastructure needs.

Utility rates are not fun, and no one likes to hear the rates have to raise. The simplest part of the entire process is whether to say yes to a utility increase or no. Getting there however then requires the development of a community philosophy. Does the community say no to rates thereby focusing on money in pockets and less for capital projects or say yes for additional capital needs but at what cost to the citizens? The discussion for this meeting is to develop a consensus on direction. Does the Council wish to review a rate adjustment to meet immediate and long-term budgetary needs, or should the priority be limiting capital projects to leave rates where they are? Both decisions carry risk and potential reward. On the one hand, Council chooses not to raise rates because the water fund has \$170,000 in 2022 to be moved to a capital fund (in addition to the \$300,000 already planned). On the other, skipping a second year of increases means the water rate falls further behind and has to be evaluated accordingly for 2023 and beyond and constricts the ability for projects to be completed.

The Challenge/Problem:

How do we approach utility rates in a way that addresses operational and capital needs in alignment with Council goals while ensuring that users are not priced out of the system?

Stakeholders:

- City of Sweet Home residents and businesses – Residents and commercial businesses are the sole users of water, sewer and storm and therefore pay for the distribution, collection and usage. All utility users expect that the City is using resources appropriately and accurately billing them for necessary expenditures. Given the current economic climate, residents and businesses are also being asked to do more with less and a revision to the utility rates may adversely impact their operations.
- City of Sweet Home City Council – Council members are the voice of the citizens we serve. Each member of this group is interested in providing the best service possible for the best possible price. They must balance leadership with representation.
- Sweet Home Public Works staff – Public Works staff ensures utilities are maintained in a manner which benefits all in the city. Appropriate rates provide necessary resources used to maintain a level of service expected by utility users.
- Sweet Home Community & Economic Development – Regular review of expenditures within utility funds and, subsequently, utility rates ensure that Sweet Home is comparable to other cities of similar size which can attract new rate payers to the system. New citizens or businesses affect the community in a positive manner and affects livability within the city.

Issues and Financial Impacts:

1. Increasing utility rates – Citizens have many utility bills to pay including the city's utilities. Increases to utility rates can have a negative impact on citizens even though the city must operate with enough resources to back necessary expenditures. While the water system could operate during fiscal year 2022 without a rate increase, the City would be using the savings from debt payments, a temporary, two-year reprieve to offset rates. In two years when the debt payments returned to "normal," rates would need to increase or decisions on reducing operating expenses would be necessary to balance the budget as required by ORS. Small, incremental increases now would

mitigate this possibility in two years and allow for the debt savings to be spent on capital projects.

For storm water, the utility rate has not seen an increase since inception in 2006. There is a backlog of storm water projects and the existing funds barely covers a half-time employee. A small increase in this rate would relieve some pressure on existing operations and allow for capital projects to proceed with minimal effect felt by rate payers.

2. Oregon Revised Statutes (ORS) – ORS require that the City maintain a zero or positive fund balance at the end of a given fiscal year. This requires the City and the Council to act accordingly. The decision then becomes one of raising rates or reducing expenses. When managing funds in which nearly 62% of its resources come from the user fees generated, options are limited in decision-making.
3. Division resources – When Public Works is left with diminishing resources, tough decisions must be made regarding service offerings to customers. Stability in these fees provides the Department and Divisions the ability to plan and attempt to mitigate other factors that contribute to the increasing expenses.

Elements of a Stable Solution:

Reviewing the rates annually and making revisions at the time rather than shelving rate adjustments for another year ensures overall stability of the utility funds and ensures rate payers are not saddled with significant increases at one time. Alternatively, rate increases that users cannot afford results in lost revenue to the City which reduces available funds to meet current service levels.

Options:

1. Consensus from Council on reviewing a rate increase for water and storm water. **NO rate increases** are being proposed tonight. Instead, staff is looking for the City Council to make a decision on philosophy. Rate increases allow the City to continue to operate at current service levels and continue to address various deficiencies in the utility system in a proactive manner. All cities are stuck with the same question every year on whether to address deferred maintenance or address concerns in a reactive manner. This age-old question never goes away but staff makes the best effort possible to limit operational costs to maximize available funds from existing rates.
2. Consensus from Council on reviewing a rate increase for storm water ONLY. Staff would return to a future meeting with a proposed budget and a proposal for a rate increase for the storm water fee only.
3. Consensus from Council on reviewing a rate increase for water ONLY. Staff would return to a future meeting with a proposed budget and a proposal for a rate increase for the water utility only.
4. Do Nothing. Staff would assume this option means that the City Council is not interested in a rate increase for the 2022 fiscal year on any of the utility funds and would therefore craft a budget based on current rates to present to the budget committee.

Recommendation:

Staff has no recommendation currently. Staff is aware of the unique situation we all face regarding COVID-19 and the ensuing economic downturn that the United States entered in the first quarter of 2020. Additionally, staff understands that while our water and storm water utility rates are comparable to other locations, our sewer utility rate is among the highest in the state which is concerning for many. However, alternatively, staff is also aware that *previous attempts to freeze a utility rate has resulted in higher increases in a future fiscal year to mitigate expenditure reductions and/or service cuts.* Continued freezing of the water and storm water utility rates may result in delayed projects important to maintain and preserve the City's infrastructure. The impact of this decision is unmeasurable given the multiple factors that cannot be predicted.